

ABSTRACT

A current mortgage price indicator futures contract ("Mortgage Futures Contract") that can be traded on a futures exchange is described. The contracts add value over existing hedging and speculating alternatives by meeting the needs of a wide range of mortgage and mortgage-backed securities (MBS) market participants such as portfolio managers, dealers, hedgers, originators, speculators and arbitrageurs. The Mortgage Futures Contract is based upon conventional MBS and has a relatively current coupon composition, thereby resulting in risk properties that appeal to market participants more so than prior contracts based on non-conventional MBS that were not correlated to current MBS production. The Mortgage Futures Contract has a cash settlement feature designed to eliminate complicated and largely uneconomic physical delivery of the underlying security. A options contract corresponding to the Mortgage Futures Contract and that can be traded on a futures exchange is also described.